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10-31-07
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**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**

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| Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies. | Rulemaking 06-04-009<br>(Filed April 13, 2006) |

**BEFORE THE**
**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION**
**OF THE STATE OF CALIFORNIA**

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| In the Matter of:<br><br>Order Instituting Informational Proceeding on a Greenhouse Gas Emissions Cap | Docket 07-OIIP-01 |

# RESPONSE OF THE NORTHERN CALIFORNIA POWER AGENCY ON THE OCTOBER 15, 2007 ALJ RULING REQUESTING COMMENTS ON ALLOWANCE ALLOCATION ISSUES


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October 31, 2007

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OF THE STATE OF CALIFORNIA**

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COMMENTS ON ALLOWANCE ALLOCATION ISSUES**

In accordance with Rules of Practice and Procedure of the California Public Utilities Commission (CPUC), and the instructions set forth in the October 15, 2007 Administrative Law Judge's Ruling Requesting Comments and Noticing Workshop on Allowance Allocation Issues (October 15 Ruling), the Northern California Power Agency[1] (NCPA) submits these comments in response to the questions set forth in the October 15 Ruling. As directed in the October 15 Ruling, these comments are being concurrently filed with the CPUC in

[1] NCPA is a Joint Powers Agency whose members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, the Truckee Donner Public Utility District, and the Turlock Irrigation District, and whose Associate Members are the Plumas-Sierra Rural Electric Cooperative, and the Placer County Water Agency.

Rulemaking 06-04-009 and with the California Energy Commission (CEC) in Docket 07-OIIP-01.

## I. INTRODUCTION

The October 15 Ruling seeks comments on a range of issues related to the allocation of emissions allowances and ultimately asks parties to provide an overall recommendation. NCPA provides the following responses, and looks forward to participating in the November 5 workshop and providing reply comments.

These comments are submitted in the interest of helping the CPUC and CEC formulate a recommendation to the California Air Resources Board (CARB) on the appropriate methodology to allocate emissions allowances. It is important to note that the allocation of emission allowances is but one component in a multi-faceted process that will be employed in order to fully implement Assembly Bill 32 (AB32) and utilized to achieve real emissions reductions in California.

Realizing emissions reductions will require a hybrid approach of both market-based and regulator-based components. The notion that a combination of market-based and regulatory-based programs will be necessary to achieve the 1990 emissions levels is consistent with observations made by CARB Chairman Mary Nichols,[2] wherein she noted that implementation of AB32 should not be viewed as requiring either a market-based or regulatory-based program, but rather that *both options* must be considered and utilized to maximize the net benefit to the state with the lowest overall impacts on the economy, and electricity customers.

Programs designed to reduce emissions must be innovative and varied, and should address both long-term and short-term emission reductions. The state must look not only to achieving the primary objective of AB32, reaching 1990 emissions levels by 2020, but also to developing a means by which overall greenhouse gas (GHG) emissions can continue to decline beyond 2020 in the face of California's growing population and expanding economy[3].

[2] Ms. Nichols made these remarks during a July 17, 2007 Senate Rules Committee Preliminary Hearing regarding her appointment to chair CARB.

[3] Pursuant to the directives of the Governor's Executive Order S-3-05, signed June 1, 2005.

The demand for electricity in California is expected to continue rising, either due to traditional load growth in expanding communities or increased electrification of other sectors.[4] Entities responsible for achieving the mandated emissions reductions should be given the greatest latitude possible to accomplish the required reductions in the most cost-effective manner possible.

The focus of any AB32 implementation program should never stray from achieving actual reductions; accordingly, resources (both in terms of personnel and financial commitments) should be focused on this goal. The state should also continue to review and analyze the programs adopted and developed in other jurisdictions[5] in order to insure that the lessons learned – both failures and successes – can be utilized to improve the effectiveness of AB32.

## II. RESPONSES TO QUESTIONS

### Evaluation Criteria

*Q1.* *Please comment on each of the criteria listed by the MAC. Are these criteria consistent with AB 32? Should other criteria be added, such as criteria specific to the electricity and/or natural gas sectors? In making trade-offs among the criteria, which criteria should receive the most weight and which the least weight?*

- *a. Reduces the cost of the program to consumers, especially low-income consumers,*
- *b. Avoids windfall profits where such profits could occur,*
- *c. Promotes investment in low-GHG technologies and fuels (including energy efficiency),*
- *d. Advances the state's broader environmental goals by ensuring that environmental benefits accrue to overburdened communities,*
- *e. Mitigates economic dislocation caused by competition from firms in uncapped jurisdictions,*
- *f. Avoids perverse incentives that discourage or penalize investments in low-GHG technologies and fuels (including energy efficiency),*
- *g. Provides transition assistance to displaced workers, and*

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[4] In the 2007 IEPR Report, the CEC concludes that "[d]emand for electricity is forecast to grow at a steady pace, fed by a projected increase in population—currently more than 36 million and projected to grow to 42 million by 2020." (2007 IEPR, p. ES-5) See also, the CEC staff's *California Energy Demand 2008-2018* Report, which demonstrates, in Figure 3, that the commercial, residential, agricultural and industrial sectors will continue to see increases in electricity consumption through 2018 (at p. 14), and that statewide electricity consumption will continue to rise steadily through the 2008-2018 demand forecast period. (Table ES-1, at p. 3)

[5] One such example is the nascent emissions auction being implemented in the northeast.

*h. Helps to ensure market liquidity.*

NCPA Response 1:

The MAC set forth eight principles that it believes should guide the determination of allowance allocations. Each of these principles should be carefully considered in this process, if not given equal weight, as costs to customers should be given paramount consideration.

The implementation of the principles must recognize that program costs might be disproportionately borne by utilities that have low carbon footprints. These program costs will be disproportionately borne by smaller utilities, which will impact the overall cost effectiveness mandated by AB32.[6] Further, there should also be recognition of early actions taken by entities since the passage of AB32, as well as past investments in low emitting resources. Any program should work to advance the state's broader environmental goals, mitigate the adverse impacts on displaced workers and economic dislocations, and acknowledge the inevitable increased demand for electricity in California due to traditional load growth in expanding communities. The program must also encourage investments in low-GHG technologies in order to insure future reductions.

**3.2. Basic Options**

*Q2. Broadly speaking, should emission allowances be auctioned or allocated administratively, or some combination?*

NCPA Response 2:

Emissions allowances for the electricity sector should be freely allocated. NCPA does not advocate auctioning emissions allowances. As more fully set forth in Response to Question 3, there are several attributes of an auction that would hinder, rather than facilitate, emissions reductions within the electricity sector.

*Q3. If you recommend partial auctioning, what proportion should be auctioned? Should the percentage of auctioning change over time? If so, what factors should be used to design the transition toward more auctioning?*

NCPA Response 3:

NCPA does not favor an outright auction of all allowances, and has concerns regarding both the administration of the auction and the manner in which auction proceeds might be distributed.[7] In the event that an auction is implemented, the state should not move forward with such a process until full consideration has been given to

[6] Health and Safety Code § 38562(a) and (b).

[7] The notion of "allowances" and an "auction" are counterintuitive. The assignment of emissions allowances is an inherent recognition that the 1990 emissions levels cannot be achieved immediately, and during the transition period entities should not be faced with the double burden of both reducing their emissions profiles *and* purchasing emissions allowances.

the economic impacts of an auction on the electricity sector, including administrative complexity, increased costs, and diversion of essential resources from the key objective of reducing emissions . In the event there is an auction, the ultimate auction design should also take into account developments outside of California and to the greatest extent possible, be shaped to transition to a regional or federal program.[8]

As noted above, NCPA believes that the initial distribution of emissions allowances should be free; if an auction is implemented, there should be a gradual transition from free allocation of allowances to an increasing portion of allowances placed into the mandatory auction. Such a transition period should be designed with the objective of rewarding entities that have reduced their carbon footprint through energy efficiency and other programs, recognizing early investments in low GHG emitting resources. A transition to auction should not penalize the entities that are the most successful in meeting the AB32 objectives.

*Q4.* *How should new market entrants, such as energy service providers, community choice aggregators, or (deliverer/first seller system only) new importers, obtain emission allowances, i.e., through auctioning, administrative allocation, or some combination?*

NCPA Response 4:

Allocation of emissions allowances based on retail sales recognizes new entrants when the retail service provider is the point of regulation for obtaining emissions reductions.

**3.3. Auctioning of Emission Allowances—General Questions**

*These questions assume that some or all emission allowances are auctioned, and should be answered for both the electricity and natural gas sectors. If your recommendations differ for a load-based or deliverer/first seller point of regulation in the electricity sector, or for the natural gas sector, explain why.*

*Q5.* *What are the important policy considerations in the design of an auction?*

NCPA Response 5:

In order to determine the most import policy objectives for designing an auction, the state must first identify the purpose and objectives of the auction itself. An auction must be designed so as to maximize the benefits to those most impacted by the expenditure associated with purchasing allowances and to minimize the opportunity for market manipulation and gaming. Administration of an auction should not be burdensome on the administrator or participants, rules associated with the auction should be clear and administration should be transparent. Finally, no auction should be implemented until all aspects of the program have been fully and publicly vetted by all stakeholders.

[8] Health and Safety Code § 38564 provides, in pertinent part, that "the [CARB] shall consult with other states, and the federal government, and other nations to identify the most effective strategies and methods to reduce greenhouse gases, manage greenhouse gas control programs, and to facilitate the development of integrated and cost-effective regional, national, and international greenhouse gas reduction programs.

An auction should be designed to insure that those most directly affected by emissions reduction obligations and the costs associated with allowance purchases - the state's electricity customers – are not removed from the benefits of the proceeds obtained from the auction process. If there is an auction, in order to justly compensate those that must purchase allowances, proceeds from any auction should be distributed in a manner that maximizes the return to utility customers and prioritizes mitigation of adverse impacts on those customers. While distribution of auction proceeds to statewide projects aimed at reducing overall GHG emissions is a laudable goal, it is the utility customers of NCPA's members and the other retail electric providers across the state that will bear the costs of emissions reduction programs and who should be able to realize a proportionate share of any benefit obtained by virtue of those customer investments.

*Q6.* *How often should emission allowances be auctioned? How does the timing and frequency of auctions relate to the determination of a mandatory compliance period, if at all?*

NCPA Response 6:

The frequency of the emissions auction should be directly linked to the compliance period and the administrative retirement of emissions credits. CARB is currently contemplating annual mandatory reporting and verification.

*Q7.* *How should market power concerns be addressed in auction design? If emission allowances are auctioned, how would the administrators of such a program ensure that all market participants are participating in the program and acting in good faith?*

NCPA Response 7:

One of the fundamental disadvantages of an auction is the potential for market abuses and gaming. Auction participation should be limited to those entities with emissions reduction obligations. If participation in the auction is not so limited, the auction would be open to potential abuses and the price of emissions credits would be driven by a profit base rather than by the real cost associated with effecting reductions.

*Q8.* *What criteria should be used to designate the types of expenditures that could be made with auction revenues (including use to reduce end user rates), and the distribution of money within those categories?*

NCPA Response 8:

If a mandatory auction is imposed, it is imperative that auction proceeds be used to help compensate those electricity customers that ultimately paid for the allowances; that is, revenues should be allocated to programs that go directly to the communities and customers impacted by the reduction obligations. Anything other than the free allocation of emissions allowances creates a situation where electricity customers must pay twice to meet the objectives of AB32; once through the actual emissions reductions being employed by the retail provider and again by purchasing allowances through the auction. Therefore, 100% of the auction revenues should not be placed into a common fund to be used only for broader policy objectives, such as research and development of low emitting resources, though a portion of the proceeds could be used for that purpose. Rather, a retail electric provider responsible for emissions reductions should have the ability to utilize the proceeds of an auction to effect even greater reductions within its service area.

Wide scale distribution of auctions proceeds to the "greater good" without consideration of the actual sources of those funds is not acceptable. If allocation of auction revenues or proceeds are not prioritized to recognize the costs borne by electricity customers, with the majority of the proceeds being returned directly to the communities that shouldered the cost burden, the auction proceeds will be little more than the functional equivalent of a tax.

*Q9. What type of administrative structure should be used for the auction? Should the auction be run by the State or some other independent entity, such as the nonprofit organization being established by the Regional Greenhouse Gas Initiative?*

NCPA Response 9:

An auction should be administered by the entity that is able to do the job most efficiently at the lowest overall cost. Creation of an entirely new entity for the sole purpose of administering an auction is likely not cost effective, and may result in yet another layer of bureaucracy in the compliance process. Nor should an auction be administered by a third party non-profit entity. On the other hand, the state agency designated to run the auction must be given clear directives and direction to carry out its task, including the establishment of auction rules that will prevent gaming and market manipulation.

## 3.4 Electricity Sector

### 3.4.1 Administrative Allocation of Emission Allowances

*Q10. If some or all allowances are allocated administratively, which of the above method or methods should be used for the initial allocations? If you prefer an option other than one of those listed above, describe your preferred method in detail. In addition to your recommendation, comment on the pros and cons of each method listed above, especially regarding the impact on market performance, prices, costs to customers, distributional consequences, and effect on new entrants.*

NCPA Response 10:

Allocation of emissions allowances should ultimately be determined using a sales-based methodology. Doing so more effectively accommodates load growth and creates incentives for retail providers to remain competitive and reduce emissions. Such a mechanism also encourages energy efficiency and conservation, providing strong incentives for the development of low-emitting resources.

Allocation should not be permanently based on grandfathering.[9] To do so would recognize entities that have historically high emissions to the detriment of those that have taken steps to achieve a lower overall carbon footprint without distinction. Many entities that currently have low emissions profiles achieved this level by investing in more costly and lower emitting resources, and by implementing aggressive energy efficiency and renewable portfolio programs.

*Q11. Should the method for allocating emission allowances remain consistent from one year to the next, or should it change as the program is implemented?*

NCPA Response 11:

In order to create the proper incentives and rewards for those responsible for meeting the reductions goals, an allowance allocation methodology must necessarily be clearly defined and established at the onset of the program, and should not change over time. This initial definition can, and should, involve a transition from one form of allocation to another, as long as the transition form and period are clearly defined from the very beginning. These transition criteria must account for overall reductions achieved, as well as load growth associated with both expanding customer base and increased electrification of other sectors.

As noted above, allowances should eventually be allocated based on sales. Such a program, however, must be designed to reward and not disincentivize emissions reductions achieved by virtue of robust and successful energy efficiency programs. The electricity sector as a whole is also likely to see increases in demand due to California's growing economy, as well as electrification of other sectors, such as electric trains used for mass transit and port electrification. A sales-based allowance allocation methodology will allow the electricity sector to expand due to decreases in other sectors, without penalizing the retail electric providers that will be supplying the electricity to these emissions reductions efforts.

*Q12. If new market entrants receive emission allowance allocations, how would the proper level of allocations be determined for them?*

NCPA Response 12:

Under a sales-based allowance allocation methodology, new market entrants are assigned allowances based on their level of sales. This is the simplest way to acknowledge new participants and determine their proper allowance allocation. Prior to the completion of any reporting year, new entrants allowances would have to be based on projected loads, until such time as actual historic sales information has been determined.

*Q13. If emission allowances are allocated based on load/sales, population, or other factors*

[9] "A method by which emission allowances are freely distributed to entities covered under an emissions trading program based on historic emissions." (MAC report, p. 93.)

*that change over time, how often should the allowance allocations be updated?*

NCPA Response 13:

Allowance allocations should be updated annually, based on the information that is obtained by CARB through the mandatory reporting process. However, the annual update needs to be designed as to accurately account for load reductions that are the direct result of energy efficiency or demand response programs, as well as load growth that is the result of adding new customers or new market participants.

*Q14. If emission allowances are allocated based on historical emissions (grandfathering) or benchmarking, what base year(s) should be used as the basis for those allocations?*

NCPA Response 14:

The base year for allocations based on sales or similar benchmarking should be as close to 2012 as possible and should be established utilizing the most recent data available. Since CARB contemplates collecting information beginning with 2009, that information could be used as the basis for making such a determination. Using a base year that is close to the actual AB32 implementation date acknowledges entities that are actively working on early voluntary reductions in their current GHG emission levels, recognizes clean portfolios, and takes into account current population and growth trends. However, the base year (or combination of years) should also consider normalization of hydroelectric conditions.

Alternatively, under an emissions based methodology, it is imperative that a base year be established that does not provide an incentive for high carbon-based utilities to receive a disproportionate by virtue of simply having a high carbon portfolio.

*Q15. If emission allowances are allocated based initially on historical emissions ("grandfathering"), should the importance of historical emissions in the calculation of allowances be reduced in subsequent years as providers respond to the need to reduce GHGs? If so, how should this be accomplished? By 2020, should all allocations be independent of pre-2012 historical emissions?*

NCPA Response 15:

Allowance allocations should eventually be based on sales. If emissions allowances are *initially* based on historical emissions, there must be a plan in place – from the on-set of the program by which the allocation of allowances is transitioned from historical emissions to a sales-based benchmark; this recognizes the reductions lower emissions levels achieved by early actors. Such a transition must take place prior to 2020.

*Q16. Should a two-track system be created, with different emission allowances for deliverers/first sellers or retail providers with legacy coal-fueled power plants or legacy coal contracts? What are the factors and trade-offs in making this decision? How would the two tracks be determined, e.g., using an historical system emissions factor as the cut-off? How* *should the allocations differ between the tracks, both initially and over time? What would be the market impact and cost consequences to consumers if a two-track method were used?*

NCPA Response 16:

A two-track system for allocating allowances would create even greater confusion and adminisrative complexities. Further, such a system would actually transfer the cost of reducing emissions away from those that are the most carbon-intensive.

*Q17. If emission allowances are allocated administratively to retail providers, should other adjustments be made to reflect a retail provider's unique circumstances? Comment on the following examples, and add others as appropriate:*

*a. Climate zone weighting to account for higher energy use by customers in inclement climates, and*

*b. Increased emission allowances if there is a greater-than-average proportion of economically disadvantaged customers in a retail provider's area.*

NCPA Response 17.a:

A sales-based allowance allocation methodology addresses this issue without further complexities. However, any other allowance allocation methodology should include provisions to adjust for climate. Customers in some areas of the state will simply have a greater demand for electricity during certain times of the year, which could result in a lower threshold for immediate reductions.

NCPA Response 17.b:

As noted above, a primary objective of not only emissions allocation, but AB32 implementation overall should be to reduce the adverse impacts on the state's electricity customers. Clearly, those that are economically disadvantaged will likely feel a disproportionate impact occasioned by increased electricity costs. Any AB32 implementation scheme must take this into consideration. However, the best way to address this issue is not by way of granting a greater allocation of emissions allowances based on socio-economic circumstances. Rather, the focus should be on developing the most straight forward program that allows entities to focus their resources on immediate and long-term emissions reductions, rather than on mitigating adverse impacts on its ratepayers.

*Q18. Should differing levels of regulatory mandates among retail providers (e.g., for renewable portfolio standards, energy efficiency investment, etc.) be taken into account in determining entity-specific emission allowance allocations going forward? For example, should emission allowance allocations be adjusted for retail providers with high historical investments in energy efficiency or renewables due to regulatory mandates? If those differential mandates persist in the future, should they continue to affect emission allowance allocations?*

NCPA Response 18:

No allowance allocation methodology should punish those that made early investments in renewable resources or energy efficiency programs, nor provide a disincentive for continued early actions and emissions reducing investments. NCPA believes that the entity responsible for emissions reductions should be able to do so in the manner that achieves the most cost effective result. Differing mandates should not affect the emissions allowance process. Rather, the energy efficiency and renewable portfolio standards – regardless of the mandated levels – help reduce emissions and should remain available as tools for entities to meet their specific reduction goals.

Entities should be able to determine the total emissions reductions that can be achieved through these measures and the extent to which any one program can be utilized in the most cost effective manner to achieve the greatest possible reductions for that entity. Those that can attain higher reductions by going above and beyond any currently mandated minimum would do so. All actions that achieve the goal of reducing emissions should count toward meeting the AB32 mandates, and the extent to which this can be done through existing programs only makes those reductions achievable at a lower overall cost to electricity customers.

*Q19. How often should the allowance allocation process occur? How far in advance of the compliance period?*

NCPA Response 19:

The allowance allocation process should be updated annually based on the most recent and verifiable information available. The initial allocation process – or base year – should begin as close to 2012 as possible, utilizing the information that will be provided to CARB under the currently pending mandatory reporting and verification protocol.

*Q20. What are the distributional consequences of your recommended emission allowance allocation approach? For example, how would your method affect customers of retail providers with widely differing average emission rates? Or differing rates of population growth?*

NCPA Response 20:

As noted above, an allowance allocation methodology should ultimately be based on sales. Such a process most effectively accommodates issues such as load growth and expanding populations. It also creates incentives for retail providers to remain competitive and reduce emissions, while encouraging energy efficiency and conservation, and providing strong incentives for the development of low-emitting resources. It also allows for some recognition of entities with historically higher emitting resources, without rewarding those entities.

### 3.4.2 Emission Allowances with a Deliverer/First Seller Point of Regulation

*Q21 through Q25: Emissions Allowances with a deliver/first-seller point of regulation.*

NCPA Responses 21 to 25: NCPA does not address the emissions allowances with a deliver/first-seller point of regulation in these comments, but reserves the right to respond to issues raised by other parties in reply comments.

### 3.5. Natural Gas Sector

*Q26 and Q27: Natural Gas Sector.*

NCPA Responses 26 and 27:

NCPA does not address the Natural Gas Sector in these comments, but reserves the right to respond to issues raised by other parties in reply comments.

### 3.6. Overall Recommendation

*Q28. Considering your responses above, summarize your primary recommendation for how the State should design a system whereby electricity and natural gas entities obtain emission allowances if a cap and trade system is adopted.*

NCPA Response 28:

The key to successful reductions in GHG emissions is allowing each entity responsible for achieving reductions to manage its electricity portfolio based on the unique circumstances it faces, and determining the extent to which maximum reductions can be achieved under any variation of programs. The basic design of any cap-and-trade system should include the free distribution of allowances to retail electric providers that is ultimately sales based. Auction is not favored; if there is an auction, however, it should be gradually implemented, and designed so that proceeds from the auction are returned to the ratepayers that bore the costs of obtaining the credits.

With the retail service provider as the point of regulation, a market-based program should avoid – or at the very least minimize – the use of a centralized auction. There are several aspects of an auction that would hinder, rather than facilitate, emissions reductions within the electricity sector. One such impediment is the fact that a centralized auction would effectively remove those most directly impacted by the costs associated with allowance purchases – the state's electricity customers – from the benefits of the proceeds obtained from the auction. This creates a situation where the state's electricity customers are forced to pay twice for AB32 compliance – through emissions reductions programs and through the purchase of emissions allowances. Alternatively, in order to justly compensate those that must purchase allowances through an auction, proceeds from any auction should be distributed in a manner that maximizes the return to utility customer-owners. While distribution of auction proceeds to statewide projects aimed at reducing overall GHG emissions is a laudable goal, it is the utility customers of NCPA's members and the other retail electric providers across the state that will bear the costs of emissions reduction programs and who should be able to receive the majority of any financial benefit obtained by virtue of those customer investments.

It appears clear that any AB32 implementation program will consist of both "market-based" and "regulation-based" components. In order to maximize the benefits of any GHG reduction program, those in the electricity sector responsible for emissions reduction should have the maximum flexibility to manage their own portfolios, implement emissions reduction programs, and otherwise direct the means by which they will achieve their reduction goals; part of those reductions will likely come through a cap-and-trade program. However, a cap-and-trade program should be a single tool available to achieve reduction goals, and not the sole source of emissions reductions. Retail service providers in California have existing programs that address regulatory mandates, both on a statewide basis and locally. To the extent such programs are already in place, they can be shaped to facilitate attainment of AB32 reduction goals; it would not be necessary to reinvent new programs. However, flexibility in utilizing these various programs to achieve reductions is a central and crucial element of the AB32 implementation. A program that achieves maximum reductions for one utility may only result in minimal reductions for another. Therefore, it is in the best interest of California to provide each utility with the discretion to design a program that works the best for them. Key to this effort is the development of programs that consider varying degrees of socio-economic and climatic conditions. Decreases achieved through direct regulation should build upon various state and local emissions reductions programs already in place, as well as the various programs supporting the state's energy loading order.[10]

A cap-and-trade program may provide both short- and long-term benefits to overall AB32 implementation goals. For entities planning extensive emissions reductions through long-term projects (such as building retrofits and development of renewable resources and infrastructure), a market-based program could provide a short-term remedy where entities can obtain emissions credits until such time as their reductions levels are achieved. In the long-term, a market-based program may provide a phased-in approach where emissions credits can be sold or purchased in a controlled environment in instances where entities have maximized their reductions through regulatory programs.

[10] The CEC, CPUC, and the California Power Authority adopted a Joint Agency Energy Action Plan in 2003, establishing an energy resource loading order placing a preference on energy efficiency, demand response, renewable resources, and distributed generation.

## III. CONCLUSION

The greatest emissions reductions can be most economically achieved through a combination of regulatory and market-based mechanisms, provided that entities are given an appropriate amount of discretion to utilize the tools they need. Such a method was clearly anticipated by the legislature in mandating that the reduction goals be achieved at the lowest possible cost to customers. Over-reliance on any market-based component increases the risk of higher costs to California consumers. As such, any recommendation to CARB must be sensitive to ensuring program stability that does not subject California consumers to huge cost fluctuations often associated with market price swings.

October 31, 2007 Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rule of Practice and Procedure, I have this day served a true copy of the **RESPONSE OF THE NORTHERN CALIFORNIA POWER AGENCY ON THE OCTOBER 15, 2007 ALJ RULING REQUESTING COMMENTS ON ALLOWANCE ALLOCATION ISSUES** on all parties on the Service Lists for R.06-04-009, as listed on the Commission's website on October 29, 2007, by electronic mail, and by U.S. mail with first class postage prepaid on those Appearances that did not provide an electronic mail address.

Executed at San Jose, California this 31st day of October, 2007.

Katie McCarthy